

## Stock Idea

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## Dijaya Corporation Bhd

## NEUTRAL

Target	RM1.64
Previous	-
Price	RM1.45

## Major Shareholders (%)

Tan Sri Danny Tan	30.7
Golden Diversity S/B	18.3
Impeccable Ace SB	17.9

## Stock's Information

Market cap (RMm)	662.1
Shares Capital (m)	455.6
OSK 188 Ticker	DJC MK
Industry	Property

## Company Description

Dijaya Corp is principally involved in property development with exposure in Klang Valley, Johor, Penang and Perak

## A property giant in the making

**Dijaya Corp (Dijaya)**, the master property developer of Tropicana Golf & Country Resort and Tropicana Indah Resort Homes in Petaling Jaya, the Klang Valley's first resort-styled development, recently came under our radar for its aggressive land banking activities, launches of more than RM17bn worth of projects in the next 10 years and its mega joint-venture developments in the southern region. Despite the weakening economic outlook, Dijaya still enjoys good potential earnings thanks to its strong branding and the strategic location of its projects.

**Projects worth GDV of RM17bn coming on stream.** The multi-billion projects in Dijaya's pipeline are Tropicana Danga Bay and Tropicana Danga Cove in Johor, Tropicana Subang and Tropicana Kajang in Klang Valley – totalling 551 acres landbank. The remaining notable projects are Tropicana Avenue, Tropicana Gardens, Tropicana Cheras, Tropicana Bayou, Tropicana Senibong, Tropicana One, Tropicana Kajang, W-Hotel and other smaller projects. All in, it approximately involves a total of 707 acres landbank with a combined GDV of RM17bn.

**Making its way south.** Dijaya is set to get a piece of exposure in Iskandar Malaysia, a RM383bn southern development corridor in Johor, via recent aggressive acquisitions of landbank in Danga Bay and Plentong in Johor Bharu. Both projects, which involve collaboration with Iskandar Waterfront SB, a government-linked company that heads the Iskandar Waterfront project in Iskandar Malaysia, have a collective GDV of RM6.5bn over 10 years.

**Low entry cost for Tropicana landbank.** Dijaya bought the 1,000 ha landbank in Tropicana Golf and Country Resort (TGCRC) and Tropicana Indah Resort Homes (TIRH), strategically located in a prime area in Klang Valley, at a very low entry cost as it was acquired many years ago. According to market valuation, a piece of landbank in Tropicana Indah Resort Homes could fetch up to RM300 psf compared with the RM5-RM10 psf the company bought it at earlier time.

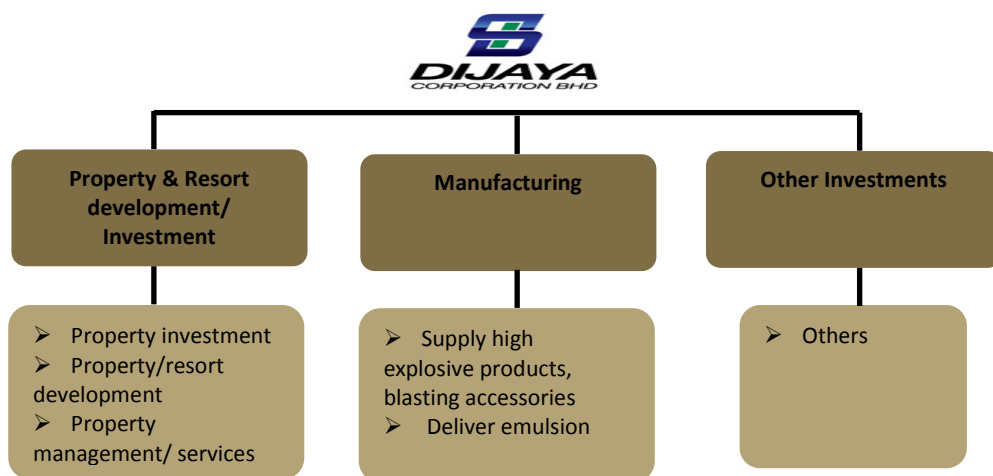
**Core 1HFY11 earnings up 35.9%.** Although 1H revenue improved by a marginal 0.2%, net profit jumped nearly 6-fold on the back of high-margin projects, tax savings on business losses, fair value adjustment from marketable securities as well as one-off compensation from contractors. Stripping out the non-core contributions, bottomline surged 35.9%, which is deemed encouraging. We expect the company's 2HFY11 core earnings to mirror the performance of the 1HFY11.

**Neutral at RM1.64.** Based on our projection, Dijaya's current share price is in line with the mid-size average FY12 PER of 10x, as well as FY12 PBV of 0.8x, which is deemed justifiable. Pegging a 0.8x PBV to our FY12 RM2.05 BVPS, we arrive at a neutral call. Note that the company is in the midst of completing a private placement of new ordinary shares representing up to 30% of its issued and paid-up capital. As a result, there will be a short-term earnings dilution which we have not factored into our forecasts. At our fair value of RM1.64, its dividend yield is 3%.

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	244.0	311.7	292.3	362.8	572.8
Core net profit *	51.1	39.4	24.4	36.3	54.6
% chg y-o-y	-8.3	-22.9	-38.1	48.9	50.2
Consensus	-	-	-	n.a	n.a
Core EPS (sen)	11.2	8.7	5.4	8.0	12.0
Gross DPS (sen)	2.0	3.0	5.0	5.0	5.0
Gross dividend yield (%)	1.4	2.1	3.4	3.4	3.4
ROE (%)	7.2	4.3	2.5	3.7	5.4
ROA (%)	4.0	2.8	1.6	2.2	3.0
PER (x)	12.9	16.7	27.0	18.2	12.1
BV/share (RM)	1.4	1.8	2.0	2.0	2.1
P/BV (x)	1.0	0.8	0.7	0.7	0.7

\*Fair value gains / losses in marketable securities have been excluded from core net profits

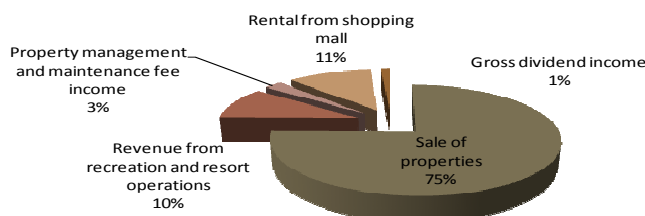
## Company background



Source: Dijaya, OSK

**The birth of Dijaya.** Dijaya started business in 1979 under the name of Itama SB 1979, and was principally involved in manufacturing fibre cement pipes and high density polyethylene pipes. Subsequently, the company expanded into mechanical engineering, equipment fabrication and installation as well as general contracting after acquiring 80% equity interest in Ikatan Engineering SB in 1992. In the same year, the company was listed on the Main Market through a reverse take-over of Jasa Megah Industries Bhd. The group eventually transformed into a real property player with its first mega project, TGC on 600 acres landbank in Petaling Jaya. Apart from the core business of property sales, the group has an indirect 33% equity interest in Tenaga Kimia SB, a high-explosive product supplier, contributing about RM4m-RM6m in group earnings annually. Helming the group is Tan Sri Danny Tan, who has been Group Chief Executive Officer since 1995, is also the largest shareholder in Dijaya.

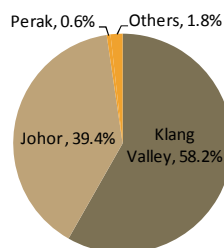
Figure 1: Breakdown of Dijaya's FY10 revenue



Source: Dijaya, OSK

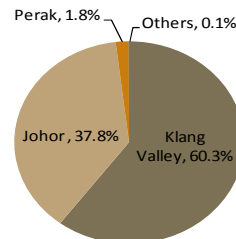
**Business overview.** Throughout the years, the group has developed more than 26 projects comprising bungalows, link houses, condominiums, shopping malls and an office complex. As at end-Aug 2011, Dijaya had about 707 acres of undeveloped landbank with a remaining GDV of RM17bn. Its property developments are mainly located in Klang Valley, Johor, Penang but it also has a small exposure in Perak. In FY10, property sales contributed about 75% of group revenue, followed by rental from Tropicana City Mall and Tropicana City Office Tower, 11%, and fees from recreation and resort operation (10%) while the remainder is from property management and investment income. Some 85% of net profit is derived from its core business while its associate, Tenaga Kimia SB, makes up the remainder of earnings.

Figure 2: Dijaya's estimated remaining GDV (by region)



Source: Dijaya, OSK

Figure 3: Dijaya's undeveloped landbank (by region)

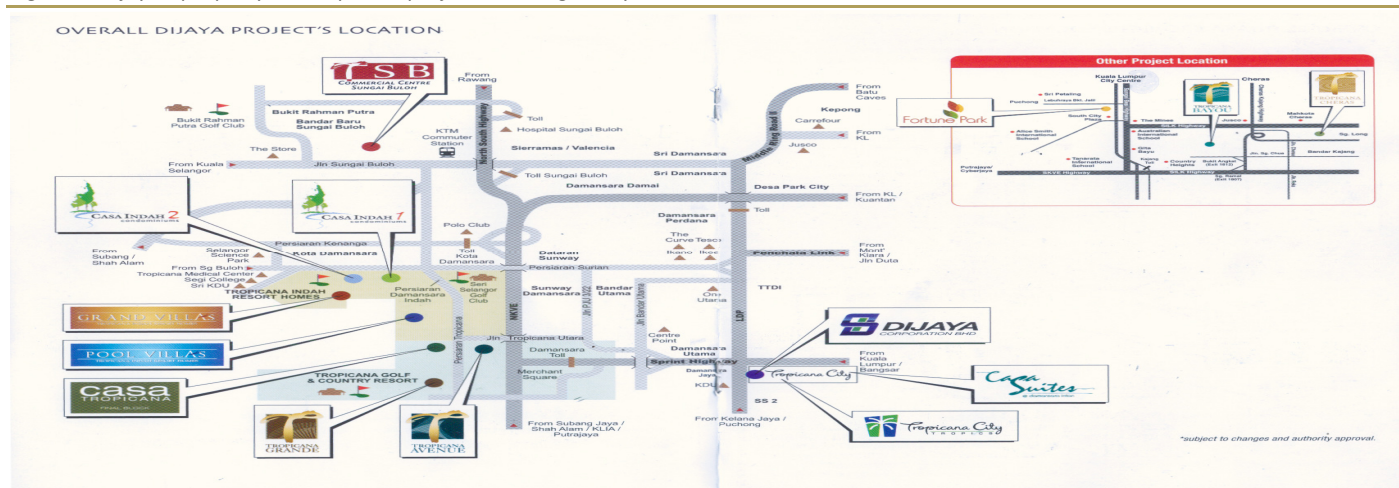


Source: Dijaya, OSK

## Investment case

**The remaining developments in Tropicana, Petaling Jaya.** Dijaya is a pioneer in replicating resort-style developments in Malaysia via its 625-acre Tropicana Golf and Country Resort project in Petaling Jaya. The 16-year development of TGCR is almost fully completed, with only about 4.5 acres of the 600-acre site remaining. The high-rise mixed-resort residential development comprises 497 bungalows and over 3,800 residential units, a business park and smart schools, together with a 27-hole golf course and a 380,000-sq ft club house. These are worth a total sales value of a whopping RM1.1bn. The remaining residential projects are Casa Tropicana (final phase) and Tropicana Grande, featuring the golf-fronted view, valued at GDVs of 174m and RM650m respectively. Currently, both projects have been enjoying good take-up rates of 46% and 65% since their launches last year. In commercial segment, the 374m Tropicana Avenue and RM150m Tropicana Office Tower would be the next upcoming projects featuring offices, as well as retail and entertainment space within the flagship development.

Figure 4: Dijaya's property development projects in Klang Valley

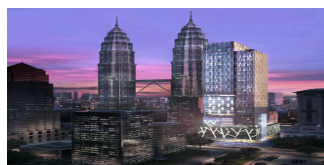


Source: Dijaya, OSK

**High margin developments in Tropicana, Petaling Jaya.** TIRH, adjacent to its former flagship project, is another development that adopts the "resort-style" theme. The 409-acre undeveloped landbank has been mostly earmarked for high-rise landed properties, namely Grand Villas, Pool Villas, Link Villas, Golf Villas, with a combined GDV of RM347m, featuring bungalows and semi-detached units. The entry cost of the landbank was low, pricing at RM5-10 psf compared with current market value of RM300 psf thanks to the management's prudent acquisitions during earlier days. According to management guidance, the development of the Villas only involved about 70% of costs, meaning that the development margin could be as high as 30%. The next catalytic launch would be the RM1.3bn Tropicana Gardens commercial centre, expected to kick start by mid-2012, featuring SoHo units, offices, service apartments, offices, a hotel and lifestyle retail space. With the lake-front project strategically located near the proposed MRT lines, we believe Dijaya would potentially enjoy lucrative capital appreciation given the enhanced connectivity.

**Expanding to new areas.** Due to the limited landbank in TGCR and TIRH, the group decided to expand its exposure into other areas via acquisition of new landbank or joint-venture developments. The recently acquired landbank in Sg. Long in Cheras and Balakong, which have an estimated GDV of RM185m and RM400m respectively, are being planned to be transformed into bungalows, link houses and semi-detached units. The projects known as Tropicana Cheras and Tropicana Balakong would enjoy good connectivity and easy access to the Silk Highway, North-South Highway, Sungai Besi Highway, Middle Ring Road 2, East-West Link, Kuala Lumpur-Seremban Highway and South Klang Valley Highway. Close to its proposed projects in Sg Long and Balakong, another multi-billion project called Tropicana Kajang in the Kajang Hill Golf Club would be slated to transform into landed properties, condominiums, apartments and shop offices. The six-year project could also be a potential beneficiary of the proposed Kajang-Sungai Buloh MRT system, which is expected to begin service in 2017. To tap into the vicinity exposure of the MRT system, the management decided to launch the project in 2014. In Subang, Dijaya had bought 4 parcels of landbank for RM385.5m or RM100 psf in last June. The Subang project sits strategically on 88.5 acres of landbank located in Subang Hi-Tech Industrial Park. It will have 3-storey link, semi-detached and bungalow houses and condominiums. For commercial development, it will also have retail lots and serviced apartments. Assuming a net margin of 15% for the Subang project, which is expected to commence in 2Q 2012, we estimate the 10-year project would contribute about RM10m-RM40m annually to the group's bottomline, starting from 2014.

Figure 5: Dijaya's upcoming launches



W-Hotel, Kuala Lumpur  
GDV: RM91.3m



Tropicana Grande, Selangor  
GDV: RM650m



Tropicana Avenue, Selangor  
GDV: RM412m



Tropicana Sg. Long, Selangor  
GDV: RM185m



Pool Villas, Selangor  
GDV: RM208m



Tropicana Office Tower, Selangor  
GDV: RM150m

Source: Dijaya, OSK

**Heading towards the south.** Dijaya is set to make a huge footprint in Johor's property market riding on Iskandar Malaysia exposure as the group has been aggressively buying landbank in the state. The first acquisition was made in August last year at a cash consideration of RM308.4m, or RM191 psf. The 37-acre landbank nestled in the south-central part of Iskandar Malaysia stretching along a 25km scenic waterfront facing the Straits of Johor would comprise a retail street mall, office towers, residences, SoHo and a hotel. The first phase of the 12-year 60:40 joint-venture project with Global Corporate Development SB (owned by Iskandar Water Front SB), named as Tropicana Danga Bay, would kick start by year-end. In terms of GDV, the commercial and residential in Tropicana Danga Bay is about 86:14 with a combined estimated value of RM3.7bn. The phase 1 has a GDV of RM546m and will feature some 700 units of upper middle serviced apartments in 3 blocks. Within the Senibong Cove development, Dijaya has a small project, dubbed Tropicana Senibong, a 4-acre sea-front residential development with a GDV of RM205m in Johor Bahru. Lately, the property reputable developer also announced a 50:50 joint-venture development with Waterfront SB (IWSB) in Plentong, Johor Bahru. The 227-acre Tropicana Danga Cove project is located in the eastern corridor of the Johor Bahru City centre flagship development zone with a total GDV of RM2.8bn. The construction of the 10-year project is targeted to commence by 1H2012.

Figure 6: Dijaya's property development projects in Johor



Source: Dijaya, OSK

**Mild exposure in northern region.** Dijaya also recently acquired 12.9 acres in Kampar, Perak for RM5.6m cash. The group proposed to develop the leasehold land into a 5-storey apartments and 4-storey shop offices with a total gross development value of RM123.7m. The project, named Tropicana Kampar, specifically caters to Universiti Tunku Abdul Rahman (UTAR) students. In Penang, Dijaya's Aston Villa project is an integrated mixed-component development comprising forty-seven 3-storey link houses, thirty-eight 3-storey semi-detached houses, and twelve 4-storey shop offices. The project is expected to be completed by end-August. Apart from that, the group has also been appointed as marketing sales agent for the 10 Island Resort project, which is a 33-storey luxurious condominium project privately owned by Tan Sri Danny Tan.

Figure 7: Dijaya's mixed development project in Aston Villa, Penang



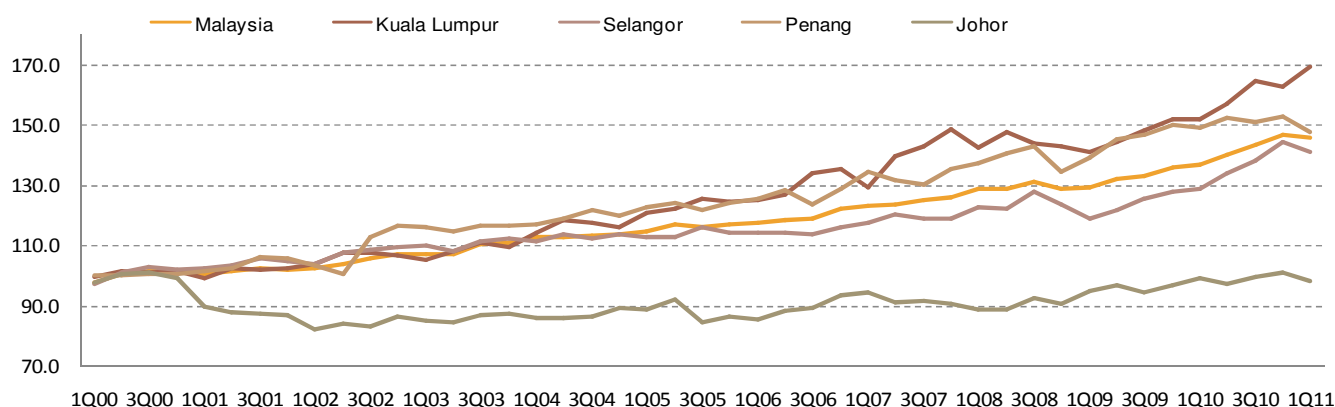
Source: Dijaya, OSK

**Venturing into hospitality.** To diversify its earnings from property sales, the group has collaboratively worked with Starwood Hotels & Resorts Worldwide, a world renowned hotel operator, to develop a W-Hotel along Jalan Ampang, Kuala Lumpur. The RM958m W-Hotel featuring 150 rooms and 328 residential units, which is scheduled to open in 2016, is the maiden entry for Dijaya in the hospitality segment. The ancillary income from hospitality would cushion the group's income when the property activities slowdown.

## Property outlook

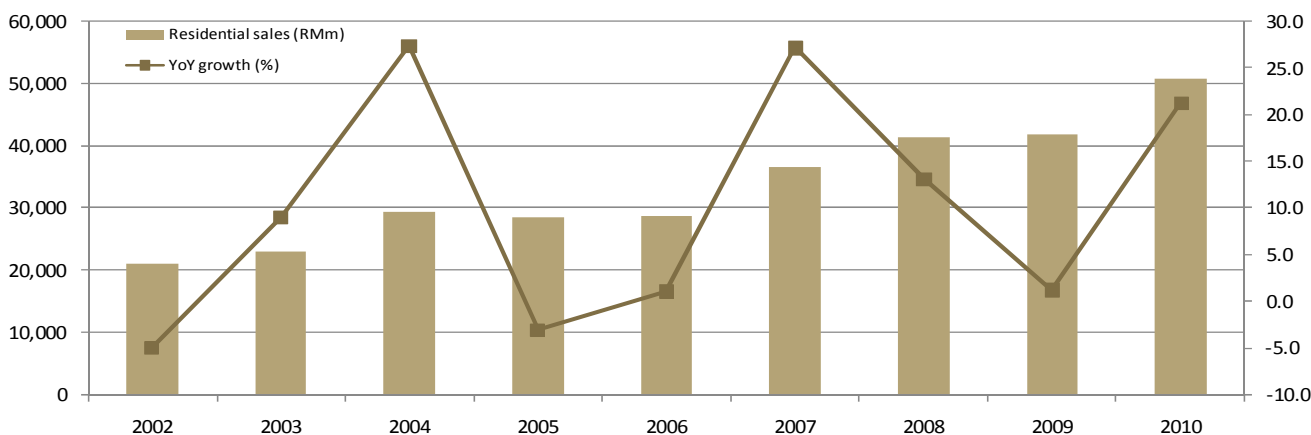
Malaysian property prices have enjoyed steady and consistent growth of a CAGR of 3.7% over the last 10 years. Despite the crisis of 2000 and 2008, the property market appears to have weathered the storm reasonably well. The market has enjoyed a boom over the past one year as commercial and residential transaction value in the local property market posted strong double-digit growth of 45.5% and 21% respectively. Kuala Lumpur, Selangor and Penang saw impressive growth while Johor has been picking up on strong buying interest from neighbouring countries to Iskandar Malaysia. Nevertheless, the market has cooled down slightly since 4Q10, which could be attributable to the implementation of the loan-to-value (LTV) in the beginning of November last year, which limited borrowings to only 70% for loans to buy a third house. We opine that the Malaysian property market would remain sustainable in the 2H, especially for those reputable property developers with major developments in the strategic locations in Klang Valley, Penang and Johor.

Figure 8: House price index for Kuala Lumpur, Selangor, Penang and Johor



Source: JPPH, OSK

Figure 9: Malaysian residential transaction sales value trends

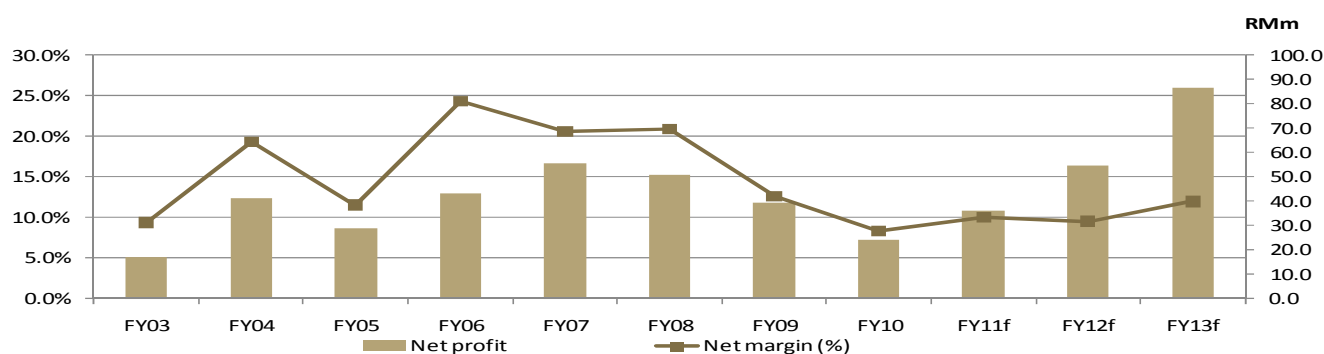


Source: JPPH, OSK

## Financials

**Historical performance.** Over the last 5 years, Dijaya has been consistently maintaining a net profit margin of above 16%, which is in line with the industry average. Driven by a vibrant property market and rising building material cost, the group's revenue has grown at a steady CAGR of 10.5% while net profit grew by a slight 2% from 2006 to 2010. For FY10, Dijaya's net profit fell 19.5% due to low profit recognition for most projects as they were still in the early stages of development. Going forward, we project that Dijaya's net profit will grow at strong double-digits of 50%-60% on the back of new projects such as Tropicana Avenue, Tropicana Garden, Tropicana Danga Bay (phase 1) and Tropicana Cheras, as well as contribution from high-margin projects such as Grand Villas, Pool Villas, Link Villas, Golf Villas and Casa Tropicana's Final Block. On top of these, there will also be non-core contributions from its recreation and resort operations, property management and maintenance fee income and rental from Tropicana City Mall and Tropicana City Office Tower.

Figure 10: Dijaya's net profit



Source: Dijaya, OSK

**Robust balance sheet.** Despite the recent aggressive land banking activities since 2010, Dijaya's balance sheet remains strong, with a low net gearing of 0.21x and 0.26x as at the end-2010 and 2QFY11. The company's ROE ranged from 3% to 7% from FY08-FY10. Based on our forecasts, Dijaya should be able to achieve 5%-8% ROE for the next 3 years. Leveraging on its healthy balance sheet and cash flow, the group has progressively increased its dividend payout ratio from 10% to 48% since FY08.

**Sales soar on strong take-up rates.** In 2010, Dijaya broke its RM500m sales mark, representing a 62.9% y-o-y surge from RM307m in FY09. Riding on a stable outlook for the Malaysian property market and new launches of residential and commercial projects, the group is looking at RM519m, RM995m and RM1.4bn sales in FY11, FY12 and FY13 respectively. We believe the RM519m sales target is easily achievable given that the company had already hit RM400m, or 77% of its sales target, in mid-2011.

**Better earnings visibility with strong unbilled sales.** For FY11, Dijaya is expected to launch some RM839m worth of projects with more coming on stream, depending on their approval status. This year's new launches will be mainly in the Klang Valley, with 93% of the total GDV consisting of residential projects while the remaining 7% would be commercial projects. Driven by the encouraging project sales, Dijaya had posted unbilled sales of RM450m as at 1 June 2011. We believe the impressive sales will provide clear earnings visibility for Dijaya for the next 2 years.

## Valuation and comparison

**NEUTRAL at RM1.64.** Compared with other mid-size property players, we find that Dijaya's current share price is trading in line with the sector average FY12 PER of 10x as well as FY12PBV of 0.8x. Given Dijaya's proven execution track record for its Tropicana project in Petaling Jaya and its healthy financial position, we think the company's valuation should be in-line with other mid-size property companies. Hence, Dijaya is fairly valued at 0.8x FY12 P/BV. Meanwhile, we are neutral on Dijaya pending further re-rating catalysts. Our fair value provides a dividend yield of 3%.

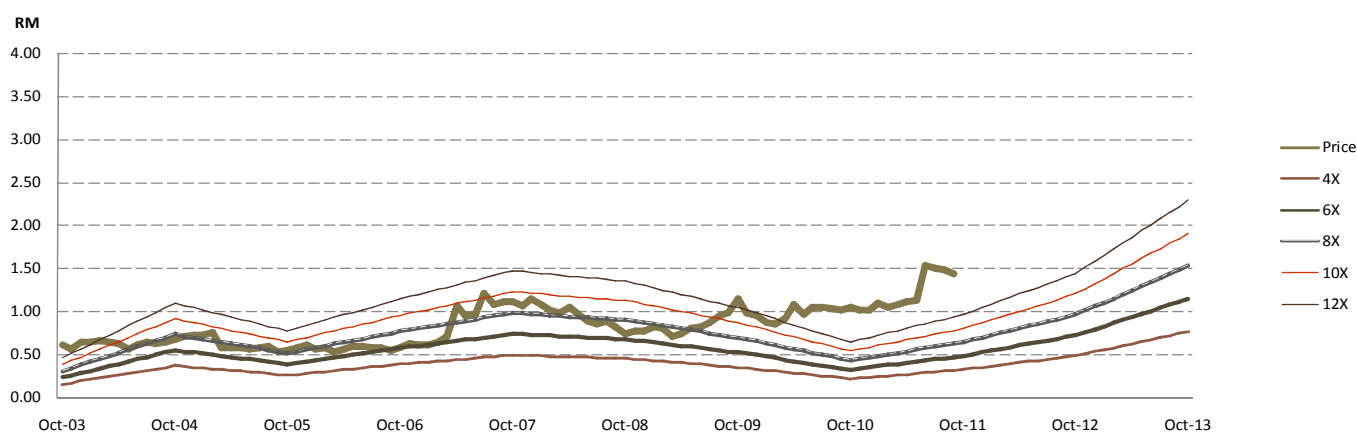
**Proposed private placement.** The group recently proposed a private placement of new ordinary shares amounting to 30% of its issued capital to a third party yet to be identified at this juncture. Assuming if the new ordinary shares to be issued at RM1.49, the private placement would raise about RM203.99m, which would mainly be used for financing landbank acquisitions.

Figure 11: Peer comparison

	Price (RM)	Mkt Cap	FY11 PER	FY12 PER	FY11 EPS Growth (%)	FY12 EPS Growth (%)	FY11 G.Div Yield (%)	FY11 ROE (%)	FY12 ROE (%)	P/NTA	Rating
Dijaya Corp	1.45	660.9	18.2	12.1	48.9	50.2	3.4	3.7%	5.4%	2.3	NEUTRAL
Bandar Raya Dev	2.37	1,155.6	24.4	20.6	9.0	18.6	3.2	2.7%	3.2%	2.0	BUY
Hunza Properties	1.51	293.5	8.1	6.6	-24.0	22.5	5.4	7.3%	11.9%	2.3	NEUTRAL
Plenitude	1.88	507.6	5.5	5.0	9.6	9.9	4.5	11.1%	11.6%	2.3	BUY
Glomac	1.49	442.8	9.3	8.5	17.5	8.7	6.0	8.8%	7.4%	2.2	BUY
Sector average (ex-Dijaya)			11.8	10.2				7.5%	8.5%		

Source: Dijaya, OSK

Figure 12: PER band for Dijaya



Source: Dijaya, OSK

## Appendix I: Dijaya's signature developments

### Tropicana Golf & Country Resort @ Petaling Jaya



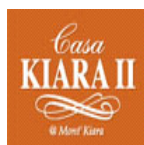
### Tropicana Indah Resort Homes @ Petaling Jaya



### Tropicana City@ Petaling Jaya



### Other Developments



Source: Dijaya, OSK

**Appendix II: Dijaya's land-banking record**

Projects	Acquisition Date	Land Size (acres)	Net Book Value (RMm)	Cost psf (RM)	GDV (RMm)	Holding (%)
Tropicana Grande, TGCR	1991	5.96	0.38	1.46	650	70
Casa Tropicana Final Block, TGCR	1991	8.20	1.72	4.82	174	100
Trop One, TGCR	1991	1.80	0.64	8.16	240	100
Tropicana Avenue, TGCR	1991	5.70	5.92	23.84	374	100
Tropicana Towers, TGCR	1991	3.20	2.70	19.37	150	100
Vacant development land 1, TGCR	1991	3.20	0.78	5.60	-	100
Vacant development land 2, TGCR	1991	1.30	0.05	0.88	-	100
Grand Villas, TIRH	1994	3.30	1.46	10.16	63	70
Pool Villas, TIRH	1994	8.67	1.88	4.98	208	70
Link Villas, TIRH	1994	0.84	0.31	8.47	31	70
Golf Villas, TIRH	1994	1.75	0.52	6.82	45	70
Trop Gardens, TIRH	1994	17.60	4.23	5.52	1,354	70
Casa 3, Selangor	1995	1.10	3.69	77.01	105	100
Aston Villas, Penang	1997	11.10	6.00	12.41	19	100
Tropicana Cheras, Selangor	2008	26.80	18.66	15.98	185	100
Tropicana Bayou, Selangor	2008	66.00	47.46	16.51	395	100
Tropicana Danga Bay, Johor	2010	37.00	308.47	191.39	3,744	60
The Residences @ W-Hotel, Kuala Lumpur	2010	1.30	123.04	2,173	958	100
Tropicana International School, PJ	2010	6.00	31.71	121.33	220	70
Trop Kampar, Perak	2011	12.90	5.60	9.97	126	100
Kpg. Senibong, Johor	2011	4.00	33.10	189.97	205	100
Trop Subang, Selangor**	2011	88.50	385.46	99.99	3,503	100
Tropicana Danga Cove, Johor	2011	227.00	220.00	22.25	2,800	50
Tropicana Kajang, Selangor	2011	198.50	228.00	22.25	2,000	100
<b>Total</b>		<b>741.72</b>	<b>1,432</b>		<b>17,549</b>	

\*\*Revise up-to-date

\*Tropicana Golf and Country Resort (TGCR)

\*Tropicana Indah Resort Homes (TIRH)

Source: Dijaya, OSK

**OSK Research Guide to Investment Ratings**

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated (NR):** Stock is not within regular research coverage

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